

MAKE IT YOUR BUSINESS

CITY OF TUCSON TAX & LICENSE ASSISTANCE

RETAIL TAX: THE BASICS

This publication contains general information about City of Tucson **Business Privilege (Sales) Tax** on retail sales. For complete details, refer to the City of Tucson Business Privilege Tax Ordinance and Official Rules and Regulations, AKA Tucson Tax Code (Chapter 19). In cases of inconsistency or omission, the language of the Tucson Tax Code will prevail.

WHO MUST PAY? If you are in the business of selling to consumers and the sale is not exempt from city tax, then you owe the retail sales tax. In Tucson, the seller owes the sales tax to the City of Tucson whether or not the seller added sales tax to the price of the items sold. The burden of proving that a sale of personal property is not a taxable sale is upon the seller.

HOW DO I PAY RETAIL SALES TAX? You must get a Business Privilege (Sales) Tax License from the License Section. Report sales and applicable tax to the City of Tucson on the retail tax return that you will receive monthly after you apply for the license. Note: State taxes are reported separately.

WHO RECEIVES THE RETAIL SALES TAX? The City of Tucson receives 2% tax from all taxable sales by businesses located within the city limits regardless of the customer's location.

SALES TAX COLLECTED: If you itemize tax separately on your customer's receipts and keep records of it on your books, you may take the actual tax collected as a deduction. If you do not separately itemize the tax, you may factor sales tax collected from your gross taxable sales.

SPECIAL SITUATIONS

1. **Sales-for-Resale:** When you sell an item to someone who plans to rent or resell it, you do not owe tax on that sale. However, you must have clear and complete records of these sales. Your records must separately show figures for retail sales and sales-for-resale. For each sale-for-resale, you must record the property sold, the buyer's name and address, and obtain a signed statement by the buyer stating that the goods will be resold in the ordinary course of business. You should also obtain the buyer's city and state sales tax license numbers. Without complete records, all your sales are subject to the tax. You must be assured that the purchaser is in the business of selling this property in the ordinary course of their business. An Occupational License is required for the resale activity.

2. **Services:** If you operate a service business, income from that business is generally exempt from retail sales tax. However, this is true only if sales of tangible items are an incidental part of your business. If you regularly make sales of tangible items to your customers and/or maintain an inventory of tangible items available for sale to customers, you are engaged in a retail business and are liable for tax on those sales. Charges for repair services by a retailer are exempt when separately charged and separately maintained in the books and records. Examples of service businesses include

landscape maintenance, doctors, attorneys and interior decorators. Service businesses and retailers who provide nontaxable services are required to have an Occupational License.

3. **Trade-Ins:** If you take a trade-in for partial payment on an item, you owe sales tax on the difference between the original selling price and the trade-in amount. The trade-in deduction on an item cannot exceed the cost of the item.

4. **Installation Labor Charges:** When you charge for installation labor on items not becoming permanently attached to real property, you don't have to pay tax on the labor charges if you clearly show those charges separately on customer invoices and in your records. Otherwise, you will owe tax on all charges where labor and parts are combined. An Occupational License is required.

5. **Federal Manufacturer's Excise Tax:** The price of tires, autos and other items sometimes includes a federal manufacturer's excise tax. Do not deduct this tax from the price of these items when calculating how much sales tax you owe. However, the federal excise tax imposed on heavy trucks and trailers (under 26 United States Code 4051) is not part of the gross proceeds and therefore not taxable.

6. **Delivery:** Freight in from the manufacturer or wholesaler to the retailer or consumer is considered a cost of doing business and therefore taxable. Freight charged by the retailer to deliver goods from his Tucson location to the purchaser is not subject to tax. An Occupational License may be required.

7. **Common Exemptions and Deductions:** The following items are not taxed under the city retail privilege tax.

- a. Items sold for resale (including sales to rental business that plan to rent the property to their customers).
- b. Out-of-City sales are valid only if you have a permanent business location outside the city where the order is received, the items are stocked, and title and possession occur.
- c. Out-of-State sales require the receipt of an order from a nonresident buyer from outside of Arizona **and** the items are shipped or delivered outside Arizona for use outside the state. (Purchaser can not be in Arizona when placing the order or when receiving the items. One exception is for purchases of vehicles as noted under "v".)
- d. Medically prescribed or recommended drugs, oxygen, and prosthetic appliances.
- e. Insulin, insulin syringes, glucose test strips.
- f. Sales of certain machinery, equipment and related items used in manufacturing, processing, job printing, mining, by telephone and telegraph companies, for electric power production and transmission, pipelines, airlines, railroads, oil and gas industries, and in cleanrooms. This includes repair and replacement parts; however, expendable materials are taxable.
- g. Sales of certain new agricultural equipment.

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- h. Sales of mining and metallurgical supplies. This exemption excludes janitorial equipment and supplies; office equipment, furniture, & supplies; or motor vehicles licensed for use on state highways. Sales to sand and gravel companies are not exempt.
- i. Sales of motor vehicle fuel and use fuel or sales of natural gas or liquefied petroleum gas for motor vehicles.
- j. Sales to contractors of material to be incorporated into a building in fulfillment of a contract. The vendor must secure a statement from the contractor stating the materials purchased will be incorporated into a building, structure, etc., in fulfillment of a contract, and is not for personal use. The vendor must also have the contractor's Business Privilege License number and business name and address.
- k. Items sold to qualifying hospitals, qualifying community health centers, or qualifying health care organizations. Obtain a copy of their current year state or city letter of exemption. Sales of items to non-profit organizations that engage in training, job placement or rehabilitation programs, or testing for mentally or physically handicapped people are exempt if the property sold is used exclusively for those activities.
- l. Food sold by qualified retailers for home consumption. "Food" includes any item that you can buy with either food stamps or food instruments issued under the Child Nutrition Act. Exempt food also includes ice and dry ice, but does not include prepared food or sandwiches or drinks served in an open container.
- m. Sales of paintings, sculptures or similar works of fine art, provided that such works of fine art are sold by the original artist; and provided further that sales of "art creations," such as jewelry, macramé, glass work, pottery, woodwork, metal work, furniture and clothing, when such "art creations" have a dual purpose, both aesthetic and utilitarian, are not exempt, whether sold by the artist or by another.
- n. Food sold to restaurants which is prepared for or served to customers. Food sold to restaurants when that food is later provided free by the restaurant to its employees while they are on the job. Food sold to airlines or public educational entities.
- o. Warranty, maintenance, and service contracts.
- p. Items sold through a casual sale.
- q. Arizona lottery tickets.
- r. Stocks and bonds.
- s. Precious metal, bullion or monetized bullion except in the form of jewelry or certain coins with numismatic value.
- t. Sales of tangible personal property that directly enters into and becomes an ingredient or component part of a product sold in the regular course of the business of job printing, manufacturing or publication of newspapers, magazines or other periodicals. Tangible personal property which is consumed or used up in a manufacturing, job printing, publishing, or production process is neither an ingredient nor component part of a product.
- u. Sales of food products by producers.
- v. Motor vehicle sales to nonresidents of Arizona for use outside Arizona if the vendor ships or delivers the vehicle out of state.
- w. Sales of tangible personal property used in remediation contracting.
- x. Sales of materials to publicly funded libraries.
- y. Sales of personal hygiene items to hotels and motels that are intended to be consumed during occupancy.
- z. Sales of groundwater measuring devices (ARS Sec. 45-604).

- aa. Sales of aircraft to be used outside the State.
- bb. Sales or transfer of telecommunication equipment used as inducement for contracts.
- cc. Sales of alternative fuel to a used oil fuel burner.

8. Sales to U.S. Government: These sales are taxable at one half the regular tax rate. Sales of products directly to the U.S. government by a manufacturer, modifier, assembler or repairer of such products are not taxable. Sales to U.S. Government departments or agencies based at Davis Monthan Air Force Base are also not taxable.

9. Sales to Indians: Sales to Indians or tribal councils are not taxable when the order is taken and delivery is made on the reservation. Payment must originate from the reservation.

10. Nonprofit Organizations: Retail sales by a nonprofit organization other than certain proprietary clubs, if recognized by the Internal Revenue Service as a nonprofit organization, are not subject to City tax. **SPECIAL NOTE: Most sales to nonprofit organizations are taxable.**

11. Vehicle Dealers: A manufacturer's cash rebate on the sales price of a motor vehicle when the buyer assigns the buyer's right in the rebate to the retailer shall be excluded from gross income. Registrations fees, license fees and taxes, and lieu taxes imposed by Title 28 A.R.S. are excluded from income when remitted to the proper authorities and itemized to the customer and in the books of the seller. The federal excise tax AKA luxury tax [26 U.S.C. § 4001(.01)] is not taxable and is excludable from gross income.

12. Other: Sales made to cities, counties, school districts, state or other political subdivisions are taxable.

FOR INFORMATION CALL, WRITE, OR VISIT:

WE ARE ON THE WEB AT www.ci.tucson.az.us/finance/

This site offers the ability to download tax forms, read the tax code, and get other business information.

The Audit Section about tax questions.

City of Tucson - Audit Division
255 W. Alameda - Second Floor
P.O. Box 27210
Tucson, Arizona 85726-7210
791-4681

The License Section about licensing.

City of Tucson - License Section
255 W. Alameda - First Floor
P.O. Box 27210
Tucson, Arizona 85726-7210
791-4566

To purchase a copy of the tax code:

The City of Tucson Business Privilege Tax Ordinance and Official Rules and Regulations are available from the City Clerk's office. The phone number is 791-4213. Call for current price and postage. There is a copy at the main library, governmental reference section, for review, 101 N. Stone, Third Floor. Call 791-4114 for current library hours.

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